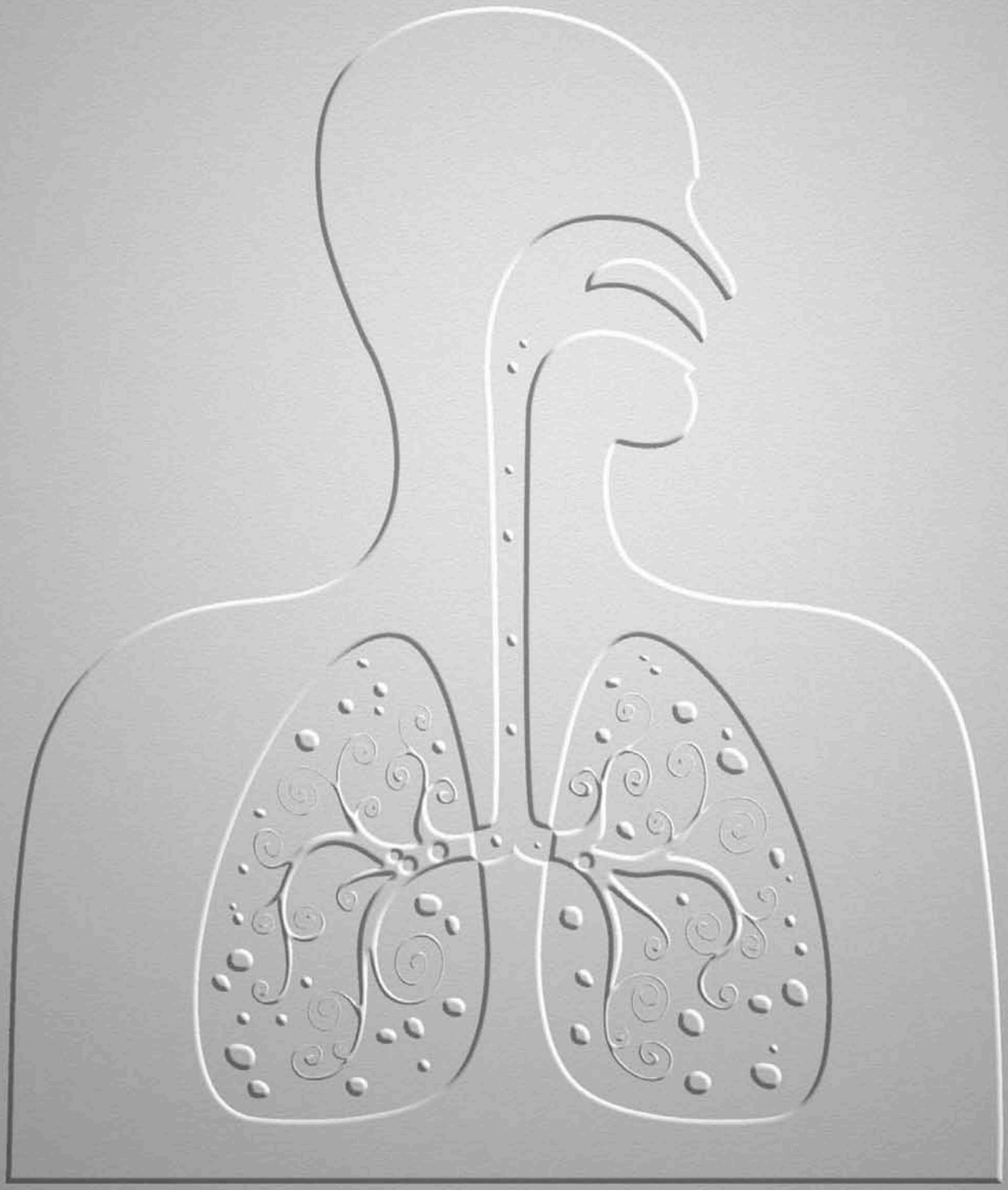
Vectura Group plc Interim Report for the six months ended 30 September 2009

vectura

A leader in inhaled pharmaceuticals



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Vectura is a leader in the development of inhaled pharmaceuticals, creating products to treat respiratory and lung-related diseases using innovative technologies and expertise.

FORWARD-LOOKING STATEMENTS

This report contains "forward-looking statements", including statements about the discovery, development and commercialisation of products. Various risks may cause Vectura's actual results to differ materially from those expressed or implied by the forward-looking statements, including adverse results in clinical development programmes; failure to obtain patent protection for inventions; commercial limitations imposed by patents owned or controlled by third parties; dependence upon strategic alliance partners to develop and commercialise products and services; difficulties or delays in obtaining regulatory approvals to market products and services resulting from development efforts; the requirement for substantial funding to conduct research and development and to expand commercialisation activities; and product initiatives by competitors. As a result of these factors, prospective investors are cautioned not to rely on any forward-looking statements. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Operational and product highlights

Strong financial performance and solid pipeline progress

NVA237 (COPD) – Novartis initiated Phase III studies triggering a $7.5m (£4.5m) milestone receipt in June 2009

QVA149 (COPD) – Novartis presented safety and efficacy data from Phase II studies at the European Respiratory Society (ERS) meeting in Vienna in September 2009; Novartis expects to initiate Phase III studies in 2010, which will trigger a further $7.5m milestone to Vectura

VR315 (generic asthma/COPD product) – Receipt of €2.5m (£2.2m) milestone payment on European programme in April 2009; receipt of $6m (£3.6m) milestone payment on US programme in August 2009

VR496 (cystic fibrosis) – Phase II proof-of-concept results expected in 2010, together with early indications of potential efficacy in COPD

VR040 (Parkinson's disease) – Phase IIb results expected in 2010

Boehringer Ingelheim GmbH ("Boehringer Ingelheim") collaboration concluded

"**Vectura has made considerable financial and operational progress** since the beginning of this financial year. Revenues increased by 71% leading to a 67% reduction in the loss after tax and a net cash inflow. The start of the Phase III NVA237 trial and the impressive data on improvement in lung function shown with QVA149, has increased confidence in the market potential of both these products as once-daily therapies for the treatment of patients with chronic obstructive pulmonary disease.

Building on this performance, our key objectives in 2010 are the initiation of the QVA149 Phase III studies, ongoing progress on VR315, and presentation of clinical data on VR040 and VR496."

Dr Chris Blackwell Chief Executive of Vectura

Financial highlights

+71%

Revenues increased by **71%** **to £22.8m** (2008/09 H1: £13.3m)

+86%

Gross profit up by **86%** **to £21.2m** (2008/09 H1: £11.4m)

+15%

Investment in research and development up by **15%** **to £18.5m** (2008/09 H1: £16.1m)

£76m

Cash and cash equivalents of **£76.3m** at 30 September 2009 (31 March 2009: £74m)

Loss after tax reduced by **67%** to **£3.3m** (2008/09 H1: £10m)

Net cash inflow of **£2.3m** (2008/09 H1: £5m outflow)

Overview

Vectura has a broad, balanced and innovative development portfolio that combines mid and late-stage pharmaceutical products with earlier-stage opportunities, addressing high potential and fast-growing market sectors.

Vectura has maintained its robust financial position, ending the half year with £76.3m of cash and cash equivalents. With revenues of £22.8m, 71% ahead of the same period last year (2008/09 H1: £13.3m), gross profit increased 86% to £21.2m (2008/09 H1: £11.4m) and a research and development investment of £18.5m (2008/09 H1: £16.1m), we recorded a reduced loss after tax of £3.3m (2008/09 H1: £10.0m) leading to an increase in cash and cash equivalents of £2.3m.

In addition to our strong financial performance, we saw good progress of our product pipeline. Novartis initiated the NVA237 Phase III clinical study in June 2009 and presented excellent QVA149 data at the European Respiratory Society (ERS) symposium in September 2009. It is our continued belief that this franchise will be a major contributor to our future success.

There has also been advancement of VR315, our combination asthma/COPD product in development with Sandoz. During the period we received £5.8m of VR315 milestone income.

Our proprietary pipeline is also progressing. VR496, our cystic fibrosis product, is expected to complete a Phase II proof-of-concept study in 2010. VR040, our Parkinson's disease product, is currently undergoing a Phase IIb "at-home" evaluation, which we also expect to report on in early 2010.

Our current collaboration with Boehringer Ingelheim to develop a dry powder inhaler (DPI) has been concluded by mutual consent. Under the terms of the non-exclusive agreement, signed in April 2006, we have worked with Boehringer Ingelheim to develop a multi-dose inhaler adapted to their requirements. This collaboration has added significantly to our intellectual property portfolio and has enhanced our DPI platform, allowing us to deliver further value from our inhaled therapy technologies through other collaborations. Having completed the device design phase of the agreement, both Vectura and Boehringer Ingelheim decided that the original terms agreed over three and a half years ago no longer reflect the companies' changing requirements. There is an opportunity to structure more appropriate deal terms in the future should a subsequent agreement be negotiated with Boehringer Ingelheim. In the large and rapidly growing respiratory market, Vectura is developing a valuable range of proprietary and generic DPI products and we will continue to seek credible and committed partners to realise the value from these products and our technologies in the future.

We have made some significant progress with our exploratory development pipeline during the period and expect at least one of these products to enter clinical development during 2010. As part of our research and development activities, we continue to grow our capacity and in April we opened a new 13,000 sq ft, state-of-the art facility at our Chippenham headquarters. It is one of only a handful of facilities globally that has been specifically designed to manufacture inhaled products, allowing us to produce later-stage clinical trial supplies and expand our pipeline.

Outlook

We are focused on our financial goal of becoming a sustainably cash-generative business following receipt of substantial milestone and royalty revenues from our partnered late-stage respiratory programmes. In the short-term we will continue to manage cash carefully and fund increased investment in our own proprietary development activities from both current revenue streams and cash resources.

Vectura intends to establish an infrastructure in the lucrative US market. In the short term the activities will focus on product development and business development, with an ultimate aim of growing the US business in order to fully exploit the commercial value of our speciality products.

We look forward to the initiation of the QVA149 Phase III study in 2010, continued progress on VR315, and clinical trial results for both VR496 and VR040. We will also continue our licensing activities on our non-respiratory assets.

Jack Cashman
Chairman

Chris Blackwell
Chief Executive

Product pipeline

Respiratory development products

Product	Indication	Description	Partner
NVA237	COPD	Long-acting muscarinic antagonist	Novartis
QVA149	COPD	Combination of NVA237 and a long-acting beta agonist (QAB149)	Novartis
VR315	Asthma/COPD	Generic combination product	Sandoz US & Europe
VR632	Asthma/COPD	Generic combination product	Sandoz Europe
Duohaler®	Asthma/COPD	Generic dual-drug product	–
VR496	CF/COPD	Mucolytic/anti-inflammatory	–

Marketed products

Product	Indication	Description	Partner
ADVATE®	Haemophilia A	Serum-free recombinant factor VIII	Baxter Worldwide
Adept®	Prevention of surgical adhesions	4% icodextrin solution	Baxter Worldwide
Extraneal®	Peritoneal dialysis	Solution containing icodextrin	Baxter Worldwide
Asmasal®	Asthma	Salbutamol delivered in Clickhaler®	UCB Europe
Asmabec®	Asthma	Beclometasone delivered in Clickhaler®	UCB Europe
Budesonide Clickhaler®	Asthma	Budesonide delivered in Clickhaler®	Mylan Europe
Formoterol Clickhaler®	Asthma	Formoterol delivered in Clickhaler®	Mylan Europe
Meptin Clickhaler®	Asthma	Procaterol delivered in Clickhaler®	Otsuka Japan

Respiratory development products

NVA237 and QVA149 for chronic obstructive pulmonary disease (COPD)
NVA237 is a dry powder formulation for inhalation of glycopyrronium bromide, a long-acting muscarinic antagonist (LAMA) with a rapid onset of activity.

NVA237 was licensed to Novartis in April 2005 by Vectura and its co-development partner, Sosei Group Corporation (Sosei). Novartis intends to launch NVA237 as a once-daily monotherapy for COPD and as a combination with its once-daily long-acting beta-agonist (LABA), indacaterol, known as QVA149.

COPD is a chronic obstruction of the airways that affects 210 million people worldwide and is projected to be the third leading cause of death by 2030. It is a progressive lung disease with symptoms including chronic bronchitis and/or emphysema, which slowly progresses and eventually leads to a largely irreversible loss of lung function. While there is no cure, bronchodilators make breathing easier by enlarging the patient's airways, and are recognised in international guidelines as an integral part of the treatment for COPD.

To date, Vectura has received $22.5m from Novartis and, under the terms of the licence, could receive up to an additional $165m for achievement of clinical, regulatory and commercialisation targets for both the monotherapy and the combination product. In addition, royalties on product sales will be received for both products.

QVA149 is one of the most advanced once-daily LAMA/LABA combinations in development and Vectura believes that it could be the first such combination to come to market for COPD. The dual activity of a muscarinic antagonist and a beta-adrenergic agonist promises to be a potent bronchodilator and, with convenient once-daily dosing, has the potential to improve compliance and address a large and unmet need for COPD sufferers.

Novartis continues to make progress in the clinical development of NVA237 and QVA149; NVA237 started Phase III trials in June of this year triggering a $7.5m milestone payment to Vectura, and QVA149 is poised to enter Phase III in 2010, triggering an identical milestone payment. At the October 2008 ERS meeting, Novartis presented data which demonstrated that NVA237 provides sustained 24-hour bronchodilation in patients with moderate-to-severe COPD and showed similar efficacy and duration of action to the market leader tiotropium (Spiriva®) with the potential for a more rapid onset of action. In addition, studies lasting up to 28 days showed that NVA237 was safe and well-tolerated, with no clinically relevant adverse events.

There is a growing consensus among key opinion leaders that a LAMA/LABA combination is likely to be the future "gold standard" for COPD patients and QVA149 has the potential to be the first such combination to come to market. Novartis presented very promising Phase II safety and efficacy data on QVA149 at the

ERS meeting in Vienna in September 2009, which not only demonstrated that it was well tolerated with overall adverse event rates similar to placebo, but that it had a clinically relevant mean improvement in trough FEV_1 (forced expiratory volume in one second) versus placebo on day 7 of 226 mL and versus indacaterol at doses of 300µg and 600µg of 123 mL and 117 mL, respectively. These are substantial improvements that were fully maintained throughout a 24-hour period on day 1 and day 7.

The LABA component of the combination, Novartis's indacaterol, received a positive opinion in September 2009 supporting European Union regulatory approval. The extensive Phase III programme for this product has demonstrated statistically superior improvements in lung function and COPD symptoms, especially breathlessness, compared to currently available bronchodilators, including tiotropium. In the US, Novartis is working with the Food and Drug Administration (FDA) to address questions raised in a Complete Response letter received in October 2009.

Submissions of New Drug Applications (NDAs) are expected to be filed for NVA237 in 2011 and QVA149 in 2012.

VR315 for asthma/COPD

Combination therapy for asthma is the biggest and fastest-growing sector of the asthma market, with annual sales of approximately $10bn. Generic respiratory products have the potential to be a large market opportunity due to the high level of expertise required to develop them.

VR315 is an inhaled combination therapy for asthma and COPD that is being developed with Sandoz Europe and Sandoz US, generic divisions of Novartis, using Vectura's GyroHaler® DPI device. Vectura licensed the European rights for VR315 to Sandoz Europe in March 2006, in a deal worth up to €22.5m in milestones and development funding together with royalties arising on all products sold. Rights in the US were licensed to Sandoz US in December 2006. The US agreement is a cost/profit-sharing agreement whereby both Vectura and Sandoz US invest in the development of the product. The US agreement includes the payment of up to $63m in milestones to Vectura. In addition, Vectura retains rights for un-licensed territories. Sandoz has invested over $50m in manufacturing facilities for VR315 and VR632 (see below).

With more key respiratory drugs coming off patent over the coming years and with increasing pressure on the regulatory authorities to approve lower cost drugs, these programmes have significant potential for Vectura. Vectura received a €2.5m (£2.2m) milestone payment from Sandoz Europe in April 2009 and expects to receive a further €7.5m in milestones from its European collaboration prior to the launch. In August 2009 Vectura received a US$6m (£3.6m) US milestone payment.

VR632 for asthma/COPD

VR632 is a second inhaled combination therapy for asthma and COPD that is being jointly developed with Sandoz, and is delivered using GyroHaler®. Vectura licensed the European rights for VR632 to Sandoz in December 2007 in a deal worth up to €15.5m in milestones and development funding, together with royalties arising on all products sold. Vectura will also earn a margin on the commercial manufacture and supply of GyroHaler® devices. Vectura retains rights for the US and other un-licensed territories.

VR496 for cystic fibrosis (CF)

VR496 is being developed as an inhaled, locally acting treatment for CF. The active component of VR496 is heparin, a drug that has been approved worldwide as an injected or infused treatment for other indications.

Vectura is conducting a Phase II clinical study with VR496 in CF patients, with data expected in the second half of 2010. A positive outcome would allow Vectura to continue development into Phase III.

A significant literature database describes the multi-modal and complementary pharmacological properties of inhaled heparin that are also relevant to the treatment of asthma and COPD, with mucolytic, anti-inflammatory, bronchodilatory and anti-infective activity being particularly relevant. Vectura will look to find a partner for the larger asthma and COPD indications following positive outcomes of proof-of-concept studies.

The European Medicines Evaluation Agency (EMEA) and US Food and Drug Administration (FDA) have designated VR496 orphan drug status.

Duohaler® for asthma/COPD

The Duohaler® device provides advantages over some multi-dose DPIs. It has two separate drug reservoirs that feed two individual drug formulations to two separate metering chambers from which the drugs are delivered to the user in the same inhalation, avoiding potential co-formulation issues. Vectura is currently looking for a licensing partner for the Duohaler® lead product in development.

Other development products

VR040 for Parkinson's disease (PD)

VR040 is an inhaled, systemically acting product for the treatment of "off" episodes associated with advanced PD. The active ingredient in VR040, apomorphine hydrochloride, has been approved previously as an injectable formulation in Europe, and more recently in the US, for treating "off" episodes. VR040 is Vectura's formulation of apomorphine, delivered by inhalation using Vectura's proprietary DPI technology.

The EMEA has designated VR040 orphan drug status. Vectura is using the EMEA scientific advice procedure to progress the development of the product. Vectura is currently conducting a Phase II "at-home" study that will report out in early 2010 and intends to out-license VR040 before the start of Phase III trials.

Financial review

Summary of results

The results for the six months ended 30 September 2009 show total revenue of £22.8m (2008/09 H1 – £13.3m) with gross profit of £21.2m (2008/09 H1 – £11.4m). The operating loss for the period was £4.6m (2008/09 H1 – £12.6m). The loss before tax was £3.7m (2008/09 H1 – £11.7m) and the loss after tax was £3.3m (2008/09 H1 – £10.0m).

Total revenue

In the six months to 30 September 2009, revenue increased by 71% to £22.8m compared to the six months to 30 September 2008 (£13.3m). Revenue includes fee income from royalties, product licensing, technology licensing, development fees and device sales.

Royalties
Royalty income increased 15% to £6.8m (2008/09 H1 – £5.9m). ADVATE® contributed 72%, £4.9m (2008/09 H1 – £3.9m) of the royalties generated in the period, with Extraneal® contributing 22% and Adept® contributing 6%.

ADVATE® is a serum-free recombinant Factor VIII product. The royalties are generated under a 2000 agreement with Baxter whereby they were granted a worldwide right to use Vectura's stabilisation patents in this product. ADVATE® is indicated for the treatment of haemophilia A. ADVATE® sales increased to over US$1.5bn in 2008, compared to US$1.2bn in 2007 and have continued to increase in the period to 30 September 2009. The annual increase in Advate® royalties in the period to 30 September 2009 is 25%, with foreign exchange rates accounting for 17% of this increase and the underlying product sales increasing by 8%. Vectura receives an average royalty of just under 1% on these high levels of sales. Extraneal® is a peritoneal dialysis solution containing icodextrin, also licensed to Baxter. Extraneal royalties were in line with the period ended 30 September 2008.

Product licensing
Product licensing revenues in the period were £7.1m (2008/09 H1 – £0.5m). These include £5.8m of milestones received from Sandoz for VR315, which were recognised in full during the period. The $7.5m (£4.5m) milestone received from Novartis is recognised over a 21-month period, which is the duration of the NVA237 clinical trial. No further product milestones are expected for the remainder of this financial year.

Technology licensing
Technology licensing revenues of £5.1m (2008/09 H1 – £2.7m) include £1.8m generated from a licensing agreement relating to Innovata technology and £3.3m released from deferred income relating to Boehringer Ingelheim milestones previously received.

Pharmaceutical Development Services
Pharmaceutical Development Services (PDS) revenues exceeded our expectations at £3.6m (2008/09 – £3.1m) due to a high demand for these services from both our current licensing partners and potential new partners for whom we are undertaking feasibility work. We expect these revenues to decline slightly in the second half of the year as we complete our work on some programmes.

Device sales
Device sales revenue of £0.2m (2008/09 H1 – £1.1m) were lower than expected due to the high levels of stock held by customers at the start of the period and low levels of third party product sales. We expect sales in the second half of this financial year to be in line with the first half. Device sales are mainly generated on our Clickhaler® proprietary reservoir DPI device. Products approved for sale in this device include salbutamol (Asmasal®), beclomethasone (Asmabec®), budesonide, formoterol and procaterol. We are actively exploring new territories for marketing these and other Clickhaler® products. Territories under consideration include China, where it is estimated that over 5% of the population suffers from asthma/COPD.

Gross profit

The gross profit in the six months to 30 September 2009 was £21.2m, an 86% increase on the same period in the prior year (£11.4m). Gross profit in the period to 30 September 2009 represents 93% of revenue (2008/09 H1 – 86%), the increase being due to the rise in product licensing milestones as a proportion of total revenue during the period.

Research and development expenses

Total investment in research and development was £18.5m, a 15% increase on the same period in the prior year (£16.1m). We expect our investment in this area to continue to increase as our key products move to late-stage development.

Other administrative expenses

Other administrative expenses for the period were £1.4m (2008/09 H1 – £1.3m) and are expected to remain consistent in the second half of this financial year.

Loss after taxation and loss per share

The loss for the period after taxation was £3.3m (2008/09 H1 – £10.0m), giving a loss per ordinary share of 1.0p (2008/09 H1 – 3.1p).

Non-current assets

Non-current assets were £100.7m, compared with £106.1m at 31 March 2009, and include goodwill (£49.6m), intangible assets (£47.2m), and property, plant and equipment (£3.1m).

Financial liability

Current liabilities include a £6.0m ($9.6m) financial liability, which represents a liability to Royalty Securitization Trust in respect of a loan secured against US dollar denominated royalty streams. A £0.7m exchange gain (2008/09 H1 – £1.1m loss) was recorded on this liability in the period due to the depreciation of the US dollar against sterling.

Deferred income

Deferred income relates to milestones received in cash but not yet recognised as revenue. The £8.9m (31 March 2009 – £10.4m) to be recognised as revenue in later periods includes £0.4m for VR315, £3.9m relating to Boehringer Ingelheim, and £3.9m for NVA237.

Cash flow

Cash and cash equivalents increased by £2.3m in the period compared to a reduction of £5.0m in the six months to 30 September 2008. At 30 September 2009, Vectura had cash and cash equivalents of £76.3m (31 March 2009 – £74.0m).

Foreign exchange rates

The following foreign exchange rates were used during the period:

	H1 2009/10	H1 2008/09	31 March 2009
Average rates:			
£/$	1.60	1.93	1.72
£/€	1.14	1.26	1.20
Period end rates:			
£/$	1.60	1.78	1.43
£/€	1.09	1.27	1.08

Anne Hyland
Chief Financial Officer

26 November 2009

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 – Interim Financial Reporting;
- the condensed set of financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required by the Disclosure and Transparency Rules (DTR) 4.2.4R;
- the interim management report includes a fair review of the information required by the DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board,

Anne Hyland
Director

26 November 2009

Condensed consolidated statement of comprehensive income

for the six months ended 30 September 2009

	Note	6 months ended 30 September 2009 £m (unaudited)	6 months ended 30 September 2008 £m (unaudited)	Year ended 31 March 2009 £m (audited)
Revenue	2	**22.8**	13.3	**31.2**
Cost of sales		(1.6)	(1.9)	(3.9)
Gross profit		**21.2**	11.4	**27.3**
Research and development expenses		(18.5)	(16.1)	(32.3)
Other administrative expenses		(1.4)	(1.3)	(3.2)
Amortisation		(5.0)	(5.0)	(10.2)
Share-based compensation		(0.9)	(1.3)	(1.9)
Total administrative expenses		(7.3)	(7.6)	(15.3)
Share of loss of associate		–	(0.3)	(0.6)
Operating loss		**(4.6)**	(12.6)	**(20.9)**
Investment income	3	0.3	2.2	3.6
Finance gains/(losses)	3	0.6	(1.3)	(2.3)
Loss before taxation		**(3.7)**	(11.7)	**(19.6)**
Taxation	4	0.4	1.7	2.9
Loss after taxation attributable to equity holders of the Company and total comprehensive income		**(3.3)**	(10.0)	**(16.7)**
Loss per ordinary share basic and diluted	5	(1.0p)	(3.1p)	(5.2p)

Condensed consolidated balance sheet
at 30 September 2009

	Note	30 September 2009 £m (unaudited)	31 March 2009 £m (audited)
Assets			
Goodwill		49.6	49.6
Intangible assets		47.2	52.2
Property, plant and equipment		3.1	3.5
Trade investments		0.4	0.4
Other receivables		0.4	0.4
Non-current assets		100.7	106.1
Inventories		0.1	0.1
Trade and other receivables	6	6.7	6.4
Cash and cash equivalents		76.3	74.0
Current assets		83.1	80.5
Total assets		**183.8**	**186.6**
Liabilities			
Trade and other payables	7	(16.0)	(14.7)
Deferred income	8	(7.3)	(8.6)
Financial liabilities	9	(6.0)	(1.2)
Current liabilities		(29.3)	(24.5)
Deferred income	8	(1.6)	(1.8)
Financial liabilities	9	–	(5.4)
Non-current liabilities		(1.6)	(7.2)
Total liabilities		**(30.9)**	**(31.7)**
Net assets		**152.9**	**154.9**
Equity			
Share capital	10	0.1	0.1
Share premium		77.6	77.2
Special reserve		8.2	8.2
Other reserve		124.9	124.9
Share-based compensation reserve		8.5	7.6
Retained loss		(66.4)	(63.1)
Total equity		**152.9**	**154.9**

Condensed consolidated cash flow statement
for the six months ended 30 September 2009

	6 months ended 30 September 2009 £m (unaudited)	6 months ended 30 September 2008 £m (unaudited)	Year ended 31 March 2009 £m (audited)
Operating loss	(4.6)	(12.6)	(20.9)
Depreciation and amortisation	6.0	5.7	11.8
Share-based compensation	0.9	1.3	1.9
Decrease in inventories	–	0.1	0.1
Increase in receivables	(0.3)	(0.4)	(0.2)
Increase in payables	1.3	1.4	4.6
Decrease in deferred income	(1.5)	(2.4)	(3.3)
Exchange movements	–	–	1.8
Other non-cash movements	–	0.3	0.6
Net cash inflow/(outflow) from operations	1.8	(6.6)	(3.6)
Taxation paid	(0.1)	(0.1)	(0.4)
Research and development tax credits received	0.5	0.4	3.3
Net cash inflow/(outflow) from operating activities	**2.2**	(6.3)	**(0.7)**
Cash flows from investing activities			
Interest received	0.3	2.2	3.6
Purchase of property, plant and equipment	(0.6)	(1.1)	(1.6)
Net cash (outflow)/inflow from investing activities	**(0.3)**	1.1	**2.0**
Net cash inflow/(outflow) before financing activities	**1.9**	(5.2)	**1.3**
Cash flows from financing activities			
Proceeds from issue of ordinary shares	0.4	0.2	0.2
Payment of financial liabilities	–	–	(5.9)
Interest paid on loans and financial liabilities	–	–	(0.4)
Net cash inflow/(outflow) from financing activities	**0.4**	0.2	**(6.1)**
Increase/(decrease) in cash and cash equivalents	**2.3**	(5.0)	**(4.8)**
Cash and cash equivalents at beginning of period	74.0	78.8	78.8
Cash and cash equivalents at end of period	**76.3**	73.8	**74.0**

Condensed consolidated statement of changes in equity

for the six months ended 30 September 2009 (unaudited)

	Share capital £m	Share premium £m	Special reserve £m	Other reserve £m	Share-based compensation reserve £m	Retained loss £m	Total equity £m
At 1 April 2008	0.1	77.0	8.2	124.9	5.7	(46.4)	169.5
Loss for the period	–	–	–	–	–	(10.0)	(10.0)
Share-based compensation	–	–	–	–	1.3	–	1.3
Exercise of share options	–	0.2	–	–	–	–	0.2
At 30 September 2008	0.1	77.2	8.2	124.9	7.0	(56.4)	161.0
Loss for the period	–	–	–	–	–	(6.7)	(6.7)
Share-based compensation	–	–	–	–	0.6	–	0.6
At 31 March 2009	0.1	77.2	8.2	124.9	7.6	(63.1)	154.9
Loss for the period	–	–	–	–	–	(3.3)	(3.3)
Share-based compensation	–	–	–	–	0.9	–	0.9
Exercise of share options	–	0.4	–	–	–	–	0.4
At 30 September 2009	0.1	77.6	8.2	124.9	8.5	(66.4)	152.9

1 Basis of preparation of the condensed half-yearly financial statements

These condensed half-yearly financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and International Accounting Standard 34 – Interim Financial Reporting, and do not include all the statements required for full annual financial statements. The same accounting policies, presentation and methods of computation, except those disclosed below in changes in accounting policies, have been followed in the interim financial statements as applied in the latest audited financial statements of Vectura Group plc for the year ended 31 March 2009.

These condensed half-yearly financial statements are unaudited and do not constitute statutory accounts of the Group as defined in section 435 of the Companies Act 2006. The auditors, Deloitte LLP, have carried out a review of the financial information in accordance with the guidance contained in International Standard on Review Engagements (UK and Ireland) 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity, and their review report is set out at the end of this report.

The financial information for the year ended 31 March 2009 has been extracted from the Group's published financial statements for that year, which contain an unqualified audit report; does not draw attention to any matters of emphasis, and did not contain statements under section 498(2) and 498(3) of the Companies Act 2006 and which have been filed with the Registrar of Companies.

Risks and uncertainties

The key business risks facing Vectura on a stand-alone basis remain unchanged from those set out in the Annual Report and Accounts for the year ended 31 March 2009. There are a number of potential risks and uncertainties that could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. Particular risks include industry risk, clinical and regulatory risk, competition and intellectual property risk, economic risk and financial risk (cash flow, credit, liquidity and price). The credit crunch could result in the failure of banks where funds are deposited, the failure of customers or insurers. The fluctuating US dollar in currency markets has and could continue to impact results. The majority of royalties received are denominated in US dollars and any increase in revenues resulting from the devaluation in sterling against the US dollar is offset to some extent by the losses incurred on a US dollar financial liability. The Board has policies in place to mitigate these risks and uncertainties.

Going concern

Although the current economic conditions may place pressures on customers and suppliers that may face liquidity issues, the Group's product diversity and nature of the customer and supplier base substantially mitigate these risks. In addition, the Group operates in the relatively defensive pharmaceutical industry, which we expect to be less affected compared to other industries.

The Group had £76.3m of cash and cash equivalents as of 30 September 2009. The Board operates an investment policy, under which the primary objective is to invest in low-risk cash or cash equivalent investments to safeguard the principal. The Group's forecasts, taking into account likely revenue streams, show that the Group has sufficient funds to operate for the foreseeable future.

After making enquiries, the Directors believe that the Group is adequately placed to manage its business and financing risks successfully despite the current uncertain economic outlook. Accordingly they continue to adopt the going concern basis in preparing the interim report and accounts.

Changes in accounting policy

In the current financial year, the Group has adopted International Financial Reporting Standard 8 – Operating Segments, and International Accounting Standard 1 – Presentation of Financial Statements (revised 2007).

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker to allocate resources to the segments and to assess their performance. In accordance with IFRS 8, the chief operating decision maker has been identified as the Executive Management. They review the Group's internal reporting in order to assess performance and allocate resources. Executive Management considers that the business comprises a single activity, being the development and commercialisation of pharmaceutical products. Therefore, the Group is organised into one operating segment and there is one primary reporting segment. The segment information is the same as that set out in the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated cash flow statement and the condensed consolidated statement of changes in equity. The previous standard, IAS 14 – Segment Reporting, required the Group to identify both business and geographical segments based on a risks and rewards approach with the Group's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments.

IAS 1 (revised) requires the presentation of a statement of changes in equity as a primary statement, separate from the statement of comprehensive income. The implementation of this standard has not had any impact on the Group's presentation of its primary statements.

2 Revenue

Group revenue by category:	6 months ended 30 September 2009 £m	6 months ended 30 September 2008 £m	Year ended 31 March 2009 £m
Royalties	6.8	5.9	12.5
Product licensing	7.1	0.5	4.2
Technology licensing	5.1	2.7	6.1
Pharmaceutical development services	3.6	3.1	6.6
Device sales	0.2	1.1	1.8
	22.8	13.3	31.2

Revenue by customer location:	6 months ended 30 September 2009 £m	6 months ended 30 September 2008 £m	Year ended 31 March 2009 £m
United Kingdom	1.5	2.5	8.0
Rest of Europe	13.0	5.0	10.8
United States of America	8.2	5.8	12.4
Rest of World	0.1	–	–
	22.8	13.3	31.2

All revenue and losses before taxation originate in the United Kingdom.

Interest income is disclosed separately in the income statement and has been excluded from this note.

3 Investment income and finance gains/(losses)

	6 months ended 30 September 2009 £m	6 months ended 30 September 2008 £m	Year ended 31 March 2009 £m
Interest income:			
Interest receivable on bank deposits and similar income	0.3	2.2	3.6
Finance gains/(losses):			
Imputed interest charge on financial liabilities	(0.1)	(0.2)	(0.4)
Exchange rate gain/(loss) on financial liability	0.7	(1.1)	(3.7)
Foreign exchange gains	–	–	1.8
	0.6	(1.3)	(2.3)

4 Taxation

	6 months ended 30 September 2009 £m	6 months ended 30 September 2008 £m	Year ended 31 March 2009 £m
Foreign withholding tax charge on royalties	(0.1)	(0.1)	(0.4)
Research and development tax credits	0.5	1.8	3.3
	0.4	1.7	2.9

5 Loss per ordinary share

The calculation of loss per share is based on the following losses and number of shares:

	6 months ended 30 September 2009	6 months ended 30 September 2008	Year ended 31 March 2009
Loss for the year (£m)	(3.3)	(10.0)	(16.7)
Weighted average number of ordinary shares (No. 000)	321,425	320,284	320,566
Loss per ordinary share	(1.0p)	(3.1p)	(5.2p)

The loss per share is based on the weighted average number of shares in issue during the period. IAS 33 – Earnings per Share, requires presentation of diluted earnings per share when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. No adjustment has been made to the basic loss per share, as the exercise of share options would have the effect of reducing the loss per ordinary share, and is therefore not dilutive.

6 Trade and other receivables

	30 September 2009 £m	31 March 2009 £m
Trade receivables	1.2	1.4
Other receivables	–	0.3
Prepayments and accrued income	4.8	4.0
VAT recoverable	0.7	0.7
	6.7	6.4

7 Trade and other payables

	30 September 2009 £m	31 March 2009 £m
Trade payables	3.8	3.2
Other payables	1.4	1.6
Accruals	10.8	9.9
	16.0	14.7

8 Deferred income

Deferred income relates to amounts received under product licensing agreements. Vectura continues to provide services to these licensing partners over a period of time. Income from milestone receipts under these licensing agreements is therefore deferred as follows:

	30 September 2009 £m	31 March 2009 £m
Amounts due within one year	7.3	8.6
Amounts due after more than one year	1.6	1.8
	8.9	10.4

9 Financial liabilities

	6 months ended 30 September 2009 £m	Year ended 31 March 2009 £m
At 1 April	6.6	8.8
Utilised	0.1	(5.9)
Exchange rate adjustment	(0.7)	3.7
Closing balance	6.0	6.6
Amounts due within one year	6.0	1.2
Amounts due after more than one year	–	5.4
Closing balance	6.0	6.6

The financial liability relates to $10m due to Royalty Securitization Trust, which is secured against certain royalty streams, the majority of which are received in US dollars.

The provision as of 30 September 2009 of £6.0m ($9.6m) is based on the total future discounted minimum payments due excluding an imputed interest charge of £0.3m ($0.4m).

The exchange rate used at 30 September 2009 was £/$1.60 (31 March 2009 – £/$1.43).

10 Share capital

	30 September 2009		31 March 2009	
	£m	No. 000	£m	No. 000
Authorised:				
Ordinary shares of 0.025p each	0.1	441,200	0.1	441,200
Redeemable preference shares of £1 each	–	34	–	34
Allotted, called up and fully paid:				
Ordinary shares of 0.025p each	0.1	322,834	0.1	321,030
Redeemable preference shares of £1 each:	–	34	–	34

Between 1 April 2009 and 30 September 2009 the Company issued 800,510 (2008/2009 H1 – 592,796) ordinary shares of 0.025p each on exercise of employee share options at an average exercise price of 49.2p per share (2008/2009 H1 – 35.6p).

11 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. There have been no material changes in the type of related party transactions described in the last annual report.

Independent review report to Vectura Group plc

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2009, which comprises the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated cash flow statement, the condensed consolidated statement of changes in equity, and related notes 1 to 11. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in Note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting, as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditors
Cambridge, United Kingdom

26 November 2009

Shareholder information

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Dr Christopher P Blackwell (Chief Executive)
Dr John R Brown (Non-Executive)
Dr Susan E Foden (Non-Executive)
Anne P Hyland (Chief Financial Officer)
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